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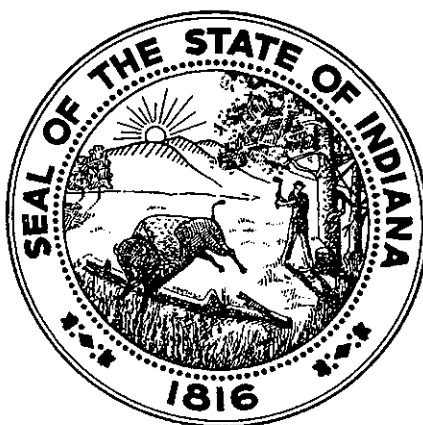
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

CITY OF LAFAYETTE

TIPPECANOE COUNTY, INDIANA



**FILED**  
09/09/2008



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	7
Statement of Activities .....	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	11
Statement of Net Assets - Proprietary Funds .....	12
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds .....	13
Statement of Cash Flows - Proprietary Funds .....	14
Statement of Fiduciary Net Assets - Fiduciary Funds .....	15
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds .....	16
Notes to Financial Statements .....	17-43
Required Supplementary Information:	
Schedules of Funding Progress .....	44
Schedules of Contributions From the Employer and Other Contributing Entities .....	45
Audit Results and Comments:	
Internal Controls .....	46-47
Prior Period Adjustments .....	47
Overdrawn Cash Balances .....	47
Ordinances and Resolutions - DROP Program .....	48
Appropriations .....	48
Payroll Records and Practices .....	48
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements	
Applicable to Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	50-51
Schedule of Expenditures of Federal Awards .....	52
Notes to Schedule of Expenditures of Federal Awards .....	53
Schedule of Findings and Questioned Costs .....	54-56
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings .....	57
Corrective Action Plan .....	58-59
Exit Conference .....	60

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	J. Michael Jones	01-01-07 to 12-31-08
Mayor	Tony Roswarski	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	Cindy Murray	01-01-07 to 12-31-08
President of the Common Council	Melissa Weast-Williamson Ronald B. Campbell	01-01-07 to 12-31-07 01-01-08 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lafayette (City), as of and for the year ended December 31, 2007, which collectively comprise the City's primary government basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Schedules of Funding Progress and Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management Discussion and Analysis or Budgetary Comparison Schedules that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

August 13, 2008



# STATE OF INDIANA

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lafayette (City), as of and for the year ended December 31, 2007, and have issued our report thereon dated August 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2007-1, 2007-2, and 2007-3 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1, 2007-2, and 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 13, 2008



CITY OF LAFAYETTE  
STATEMENT OF NET ASSETS  
December 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
<u>Assets</u>			
Cash and cash equivalents	\$ 30,913,970	\$ 11,583,184	\$ 42,497,154
Cash with fiscal agent	266,768	25,376	292,144
Receivables (net of allowances for uncollectibles):			
Taxes	1,668,417	-	1,668,417
Accounts	57,488	2,613,651	2,671,139
Other	-	3,779	3,779
Intergovernmental	2,425,323	-	2,425,323
Loans	171,052	2,937,500	3,108,552
Internal balances	434,945	(434,945)	-
Inventories	263,510	909,259	1,172,769
Prepaid expense	18,240	-	18,240
Net pension assets	264,519	162,126	426,645
Deferred debits	1,294,074	2,247,459	3,541,533
Restricted assets:			
Cash and cash equivalents	734,453	21,075,812	21,810,265
Capital assets:			
Land, improvements and construction in progress	30,125,514	42,819,138	72,944,652
Other capital assets, net of depreciation	155,837,886	147,498,502	303,336,388
<b>Total assets</b>	<b>224,476,159</b>	<b>231,440,841</b>	<b>455,917,000</b>
<u>Liabilities</u>			
Accounts payable	1,835,721	794,938	2,630,659
Accrued payroll and withholdings payable	497,389	111,792	609,181
Intergovernmental payable	734,453	-	734,453
Accrued interest payable	1,738,564	-	1,738,564
Deferred revenue	22,425	-	22,425
Performance deposits payable	28,157	-	28,157
Other current payables	-	31,957	31,957
Payable from restricted assets:			
Customer deposits	-	108,368	108,368
Accrued bond interest	-	807,018	807,018
Noncurrent liabilities:			
Due within one year:			
General obligation bonds payable	735,000	-	735,000
Revenue bonds payable	5,905,000	1,822,000	7,727,000
Capital lease obligations	323,595	66,315	389,910
Notes and loans payable	489,257	3,103,814	3,593,071
Due in more than one year:			
General obligation bonds payable	8,750,000	-	8,750,000
Revenue bonds payable (net of discounts or premiums)	56,312,678	58,671,604	114,984,282
Notes and loans payable	1,171,852	57,992,080	59,163,932
Capital lease obligations	376,364	193,450	569,814
Net pension obligation	24,017,440	-	24,017,440
<b>Total liabilities</b>	<b>102,937,895</b>	<b>123,703,336</b>	<b>226,641,231</b>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	46,591,407	70,444,559	117,035,966
Restricted for:			
General government	2,039,565	-	2,039,565
Public safety	(24,079,653)	-	(24,079,653)
Highways and streets	13,587,874	-	13,587,874
Economic development	59,331,527	-	59,331,527
Culture and recreation	6,456,096	-	6,456,096
Debt service	-	1,530,232	1,530,232
Unrestricted	17,611,448	35,762,714	53,374,162
<b>Total net assets</b>	<b>\$ 121,538,264</b>	<b>\$ 107,737,505</b>	<b>\$ 229,275,769</b>

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 4,017,983	\$ 1,810,556	\$ 15,000	\$ -	\$ (2,192,427)	\$ -	\$ (2,192,427)
Public safety	22,459,477	189,291	326,036	750,282	(21,193,868)	-	(21,193,868)
Highways and streets	9,567,432	8,030,014	10,000	1,730,630	203,212	-	203,212
Sanitation	2,646,631	-	-	-	(2,646,631)	-	(2,646,631)
Economic development	5,435,241	-	1,913,015	-	(3,522,226)	-	(3,522,226)
Health and welfare	-	3,394,016	-	-	3,394,016	-	3,394,016
Culture and recreation	4,795,824	1,821,102	-	311,047	(2,663,675)	-	(2,663,675)
Interest on long-term debt	5,905,237	-	-	-	(5,905,237)	-	(5,905,237)
Total governmental activities	54,827,825	15,244,979	2,264,051	2,791,959	(34,526,836)	-	(34,526,836)
Business-type activities:							
Water	6,881,180	8,613,991	-	-	-	1,732,811	1,732,811
Wastewater	16,918,872	22,256,077	-	-	-	5,337,205	5,337,205
Section 108	197,826	-	-	-	-	(197,826)	(197,826)
Parking lot A	194,341	172,246	-	-	-	(22,095)	(22,095)
Pittman block	3,105	30,000	-	-	-	26,895	26,895
Storm water	64,259	100,807	-	-	-	36,548	36,548
Total business-type activities	24,259,583	31,173,121	-	-	-	6,913,538	6,913,538
Total primary government	\$ 79,087,408	\$ 46,418,100	\$ 2,264,051	\$ 2,791,959	(34,526,836)	6,913,538	(27,613,298)
General revenues:							
Property taxes					34,978,989	-	34,978,989
Intergovernmental revenues					7,059,282	-	7,059,282
Loss on disposal of assets					(3,003)	-	(3,003)
Other revenues					2,848,847	-	2,848,847
Unrestricted investment earnings					3,705,785	1,661,502	5,367,287
Transfers					(5,254,611)	5,254,611	-
Total general revenues and transfers					43,335,289	6,916,113	50,251,402
Change in net assets					8,808,453	13,829,651	22,638,104
Net assets - beginning					111,302,968	92,704,356	204,007,324
Prior period adjustments					1,426,843	1,203,498	2,630,341
Adjusted beginning net assets					112,729,811	93,907,854	206,637,665
Net assets - ending					\$ 121,538,264	\$ 107,737,505	\$ 229,275,769

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2007

<u>Assets</u>	<u>General</u>	<u>Streets</u>	<u>Parks</u>	<u>Redevelopment Authority</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ (933,818)	\$ 2,459,615	\$ 1,394,917	\$ 6,529,078	\$ 20,371,437	\$ 29,821,229
Cash with fiscal agent	-	-	-	-	266,768	266,768
Receivables (net of allowances for uncollectibles):						
Interest	-	-	-	364,760	-	364,760
Taxes	1,004,502	79,059	216,529	-	368,327	1,668,417
Accounts	6,104	155	500	-	50,729	57,488
Intergovernmental	1,312,727	343,712	48,491	-	720,393	2,425,323
Loans	-	-	-	-	171,052	171,052
Interfund receivable:						
Interfund services provided and used	4,995	-	-	-	430,000	434,995
Restricted assets:						
Cash and cash equivalents	-	-	-	-	734,453	734,453
<b>Total assets</b>	<b>\$ 1,394,510</b>	<b>\$ 2,882,541</b>	<b>\$ 1,660,437</b>	<b>\$ 6,893,838</b>	<b>\$ 23,113,159</b>	<b>\$ 35,944,485</b>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 952,465	\$ 435,648	\$ 48,852	\$ -	\$ 380,608	\$ 1,817,573
Accrued payroll and withholdings payable	393,700	62,056	33,508	-	8,125	497,389
Intergovernmental payable	-	-	-	-	734,453	734,453
Accrued interest payable	19,480	20	190,920	1,089,513	803,391	2,103,324
Deferred revenue	-	-	22,425	-	-	22,425
Deferred revenue - unavailable	774,116	60,885	166,752	-	1,055,665	2,057,418
Performance deposits payable	14,097	-	14,060	-	-	28,157
Interfund payable:						
Interfund services provided and used	-	50	-	-	-	50
<b>Total liabilities</b>	<b>2,153,858</b>	<b>558,659</b>	<b>476,517</b>	<b>1,089,513</b>	<b>2,982,242</b>	<b>7,260,789</b>
Fund balances:						
Unreserved, reported in:						
General fund	(759,348)	-	-	-	-	(759,348)
Special revenue funds	-	2,323,882	1,183,920	-	2,156,455	5,664,257
Capital projects funds	-	-	-	5,804,325	3,676,334	9,480,659
Debt service funds	-	-	-	-	14,298,128	14,298,128
<b>Total fund balances</b>	<b>(759,348)</b>	<b>2,323,882</b>	<b>1,183,920</b>	<b>5,804,325</b>	<b>20,130,917</b>	<b>28,683,696</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,394,510</b>	<b>\$ 2,882,541</b>	<b>\$ 1,660,437</b>	<b>\$ 6,893,838</b>	<b>\$ 23,113,159</b>	
Amounts reported for governmental activities in the Statement of Net Assets are different because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						185,963,400
Current assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						281,750
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.						1,558,593
City and state collections that are not available until the next calendar year are recognized as revenues in government-wide funds but are deferred in the fund balances						2,057,418
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.						1,074,593
Current liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.						(7,452,852)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.						(66,234,530)
Net pension obligations is not due and payable in the current period and, therefore, are not reported in the funds.						(24,017,440)
<b>Net assets of governmental activities</b>						<b>\$ 121,914,628</b>

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	General	Streets	Parks	Redevelopment Authority	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 18,104,105	\$ 1,440,473	\$ 3,945,174	\$ -	\$ 11,144,452	\$ 34,634,204
Licenses and permits	421,318	-	-	-	12,740	434,058
Intergovernmental	7,751,302	2,911,903	369,176	-	6,673,561	17,705,942
Charges for services	38,921	-	1,402,056	-	915,376	2,356,353
Fines and forfeits	102,068	-	-	-	70,578	172,646
Other	3,454,939	73,431	47,339	2,728,470	1,875,453	8,179,632
Total revenues	29,872,653	4,425,807	5,763,745	2,728,470	20,692,160	63,482,835
Expenditures:						
Current:						
General government	2,389,654	-	-	-	147,861	2,537,515
Public safety	22,474,196	-	-	-	1,077,298	23,551,494
Highways and streets	520,594	4,578,263	-	-	976,250	6,075,107
Sanitation	2,248,766	-	-	-	-	2,248,766
Economic development	-	-	-	-	2,284,475	2,284,475
Culture and recreation	-	-	5,142,423	-	17,000	5,159,423
Capital outlay:						
Highways and streets	-	-	-	5,703,237	8,645,348	14,348,585
Total expenditures	27,633,210	4,578,263	5,142,423	5,703,237	13,148,232	56,205,365
Excess (deficiency) of revenues over (under) expenditures	2,239,443	(152,456)	621,322	(2,974,767)	7,543,928	7,277,470
Other financing sources (uses):						
Transfers in	-	-	-	-	445,200	445,200
Transfers out	(19,480)	(20)	-	-	(425,700)	(445,200)
Payments received (made) on internal leases	-	-	-	3,260,000	(3,260,000)	-
Bond issue and loan proceeds	-	-	-	-	239,913	239,913
Capital leases	454,217	-	-	-	-	454,217
Total other financing sources and uses	434,737	(20)	-	3,260,000	(3,000,587)	694,130
Net change in fund balances	2,674,180	(152,476)	621,322	285,233	4,543,341	7,971,600
Fund balances - beginning	(3,433,528)	2,476,358	562,598	5,519,092	15,673,256	20,797,776
Prior period adjustments	-	-	-	-	(85,680)	(85,680)
Adjusted beginning fund balances	(3,433,528)	2,476,358	562,598	5,519,092	15,587,576	20,712,096
Fund balances - ending	\$ (759,348)	\$ 2,323,882	\$ 1,183,920	\$ 5,804,325	\$ 20,130,917	\$ 28,683,696

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2007

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds (Statement of Revenues, Expenditures, and Changes in Fund Balances).	\$ 7,971,600
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciat expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,599,398
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(11,935)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(334,177)
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to govern- mental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,063,489
Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.	1,095,565
Transfers of non-current items between governmental and enterprise or fiduciary funds provide financial resources to net assets, but do not have any effect on governmental funds. This amount is the net effect of these transfers.	(5,418,832)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(453,499)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	<u>296,844</u>
Change in net assets of governmental activities (Statement of Activities).	<u>\$ 8,808,453</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2007

<u>Assets</u>	<u>Business-Type Activities - Enterprise Funds</u>				<u>Internal Service Fund</u>
	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Other Enterprise</u>	<u>Totals</u>	
Current assets:					
Cash and cash equivalents	\$ 1,970,868	\$ 9,441,807	\$ 170,509	\$ 11,583,184	\$ 1,092,741
Cash with fiscal agent	-	-	25,376	25,376	-
Accounts receivable (net of allowance)	377,495	2,236,156	-	2,613,651	-
Loans receivable	-	-	2,937,500	2,937,500	-
Other receivable	13,021	16,519	-	29,540	-
Inventories	311,282	597,977	-	909,259	-
Total current assets	2,672,666	12,292,459	3,133,385	18,098,510	1,092,741
Noncurrent assets:					
Restricted cash, cash equivalents and investments:					
Customer deposits	108,363	-	-	108,363	-
Revenue bond covenant accounts	1,055,490	19,662,695	249,264	20,967,449	-
Total restricted assets:	1,163,853	19,662,695	249,264	21,075,812	-
Deferred charges	234,304	1,968,155	45,000	2,247,459	-
Capital assets:					
Land, improvements to land and construction in progress	1,743,771	40,017,770	1,057,597	42,819,138	-
Other capital assets (net of accumulated depreciation)	30,884,858	113,961,326	2,652,318	147,498,502	-
Total capital assets	32,628,629	153,979,096	3,709,915	190,317,640	-
Pension benefit assets	72,530	89,596	-	162,126	-
Total noncurrent assets	34,026,786	175,609,946	4,004,179	213,640,911	-
Total assets	36,771,982	187,992,001	7,137,564	231,901,547	1,092,741
<u>Liabilities</u>					
Current liabilities:					
Accounts payable	257,601	537,274	63	794,938	18,148
Interfund payables:					
Interfund services provided and used	17,749	12,957	430,000	460,706	-
Accrued wages payable	49,107	62,685	-	111,792	-
Other payable	31,957	-	-	31,957	-
Current liabilities payable from restricted assets:					
Customer deposits	108,368	-	-	108,368	-
Revenue bonds payable	670,000	1,025,000	127,000	1,822,000	-
Notes and loans payable	47,179	3,006,635	50,000	3,103,814	-
Capital leases payable	9,827	56,488	-	66,315	-
Accrued interest payable	72,540	604,860	129,618	807,018	-
Total current liabilities	1,264,328	5,305,899	736,681	7,306,908	18,148
Noncurrent liabilities:					
Revenue bonds payable (net of unamortized discounts or premiums)	2,669,977	54,219,627	1,782,000	58,671,604	-
Notes and loans payable	-	55,077,080	2,915,000	57,992,080	-
Capital leases payable	-	193,450	-	193,450	-
Total noncurrent liabilities	2,669,977	109,490,157	4,697,000	116,857,134	-
Total liabilities	3,934,305	114,796,056	5,433,681	124,164,042	18,148
<u>Net Assets</u>					
Invested in capital assets, net of related debt	29,346,623	39,300,381	1,797,555	70,444,559	-
Restricted for debt service	398,436	879,987	251,809	1,530,232	-
Unrestricted	3,092,618	33,015,577	(345,481)	35,762,714	1,074,593
Total net assets	\$ 32,837,677	\$ 73,195,945	\$ 1,703,883	\$ 107,737,505	\$ 1,074,593

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2007

	Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Totals	
Operating revenues:					
Unmetered water revenue	\$ 33,059	\$ -	\$ -	\$ 33,059	\$ -
Metered water revenue:					
Residential	3,553,831	-	-	3,553,831	-
Commercial	1,999,879	-	-	1,999,879	-
Industrial	456,745	-	-	456,745	-
Recoveries to operations	205,179	648,567	-	853,746	-
Fire protection revenue	951,643	-	-	951,643	-
Measured revenue:					
Residential	-	6,104,967	-	6,104,967	-
Commercial	-	4,211,065	-	4,211,065	-
Industrial	-	71,492	-	71,492	-
Other	556,585	9,540,987	225,483	10,323,055	1,325,936
<b>Total operating revenues</b>	<b>7,756,921</b>	<b>20,577,078</b>	<b>225,483</b>	<b>28,559,482</b>	<b>1,325,936</b>
Operating expenses:					
Source of supply and expense - operations and maintenance	1,019,860	-	-	1,019,860	-
Water treatment expense - operations and maintenance	202,739	-	-	202,739	-
Transmission and distribution	1,082,209	-	-	1,082,209	-
Collection system - operations and maintenance	-	892,293	-	892,293	-
Treatment and disposal expense - operations and maintenance	-	3,039,787	-	3,039,787	-
Customer accounts	597,617	509,965	-	1,107,582	-
Administration and general	2,760,793	3,569,344	-	6,330,137	1,029,092
Contractual services	-	-	75,442	75,442	-
Bad debt expense	39,205	37,467	-	76,672	-
Depreciation and amortization	994,412	4,447,401	66,865	5,508,678	-
Miscellaneous expenses	-	-	536	536	-
<b>Total operating expenses</b>	<b>6,696,835</b>	<b>12,496,257</b>	<b>142,843</b>	<b>19,335,935</b>	<b>1,029,092</b>
<b>Operating income</b>	<b>1,060,086</b>	<b>8,080,821</b>	<b>82,640</b>	<b>9,223,547</b>	<b>296,844</b>
Nonoperating revenues (expenses):					
Interest and investment revenue	6,143	1,444,989	210,370	1,661,502	-
Miscellaneous revenue	11,925	14,295	-	26,220	-
Interest expense	(126,761)	(4,340,769)	(316,688)	(4,784,218)	-
Miscellaneous expense	(57,584)	(124,350)	(5,000)	(186,934)	-
<b>Total nonoperating revenue (expenses)</b>	<b>(166,277)</b>	<b>(3,005,835)</b>	<b>(111,318)</b>	<b>(3,283,430)</b>	<b>-</b>
<b>Income (loss) before contributions and transfers</b>	<b>893,809</b>	<b>5,074,986</b>	<b>(28,678)</b>	<b>5,940,117</b>	<b>296,844</b>
Capital contributions	2,550,127	4,878,221	-	7,428,348	-
Transfers in	-	-	461,186	461,186	-
<b>Change in net assets</b>	<b>3,443,936</b>	<b>9,953,207</b>	<b>432,508</b>	<b>13,829,651</b>	<b>296,844</b>
Total net assets - beginning	29,393,741	62,067,738	1,242,877	92,704,356	777,749
Prior period adjustment	-	1,175,000	28,498	1,203,498	-
<b>Beginning net assets - adjusted</b>	<b>29,393,741</b>	<b>63,242,738</b>	<b>1,271,375</b>	<b>93,907,854</b>	<b>777,749</b>
<b>Total net assets - ending</b>	<b>\$ 32,837,677</b>	<b>\$ 73,195,945</b>	<b>\$ 1,703,883</b>	<b>\$ 107,737,505</b>	<b>\$ 1,074,593</b>

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2007

	Enterprise Funds				Internal Service Fund
	Water Utility	Wastewater Utility	Other Enterprise	Totals	
Cash flows from operating activities:					
Receipts from customers and users	\$ 8,635,649	\$ 20,477,971	\$ 292,983	\$ 29,406,603	\$ 1,325,936
Receipts from interfund services provided	-	-	335,858	335,858	-
Payments to suppliers	(3,834,997)	(6,771,816)	(85,322)	(10,692,135)	(1,016,762)
Payments to employees	(2,065,807)	(2,849,743)	-	(4,915,550)	-
Net cash provided by operating activities	<u>2,734,845</u>	<u>10,856,412</u>	<u>543,519</u>	<u>14,134,776</u>	<u>309,174</u>
Cash flows from noncapital financing activities:					
Advances from other funds	-	-	82,570	82,570	-
Nonoperating revenue	-	274,295	-	274,295	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>274,295</u>	<u>82,570</u>	<u>356,865</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(1,053,601)	(14,526,915)	-	(15,580,516)	-
Principal paid on capital debt	(649,277)	(4,398,675)	(256,000)	(5,303,952)	-
Interest paid on capital debt	(149,882)	(4,841,044)	(320,155)	(5,311,081)	-
Net cash used by capital and related financing activities	<u>(1,852,760)</u>	<u>(23,766,634)</u>	<u>(576,155)</u>	<u>(26,195,549)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	<u>6,143</u>	<u>1,444,989</u>	<u>203,211</u>	<u>1,654,343</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	888,228	(11,190,938)	253,145	(10,049,565)	309,174
Cash and cash equivalents, January 1 (Including \$102,720 and \$35,627,682 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)	<u>2,246,493</u>	<u>40,295,440</u>	<u>192,004</u>	<u>42,733,937</u>	<u>783,567</u>
Cash and cash equivalents, December 31 (Including \$108,363 and \$20,967,449 for the customer deposit and revenue bond covenant accounts, respectively, reported in restricted accounts)	<u>\$ 3,134,721</u>	<u>\$ 29,104,502</u>	<u>\$ 445,149</u>	<u>\$ 32,684,372</u>	<u>\$ 1,092,741</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	<u>\$ 1,060,086</u>	<u>\$ 8,080,821</u>	<u>\$ 82,640</u>	<u>\$ 9,223,547</u>	<u>\$ 296,844</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	994,412	4,447,401	66,865	5,508,678	-
(Increase) decrease in assets:					
Accounts receivable	830,944	(105,673)	67,500	792,771	-
Other receivable	(13,642)	6,566	-	(7,076)	-
Inventories	(44,196)	80,866	-	36,670	-
Prepaid items	92,640	92,640	-	185,280	-
Pension benefit assets	12,982	15,768	-	28,750	-
Increase (decrease) in liabilities:					
Accounts payable	(157,137)	(1,343,638)	(9,344)	(1,510,119)	-
Accrued wages payable	9,171	9,149	-	18,320	12,793
Interfund services provided and used	-	(406,870)	335,858	(71,012)	(463)
Other payable	(50,415)	(20,618)	-	(71,033)	-
Total adjustments	<u>1,674,759</u>	<u>2,775,591</u>	<u>460,879</u>	<u>4,911,229</u>	<u>12,330</u>
Net cash provided by operating activities	<u>\$ 2,734,845</u>	<u>\$ 10,856,412</u>	<u>\$ 543,519</u>	<u>\$ 14,134,776</u>	<u>\$ 309,174</u>
Noncash investing, capital and financing activities:					
Contributions of capital assets from government	\$ 2,550,127	\$ 4,493,871	\$ 378,616	7,422,614	\$ -

The notes to the financial statements are an integral part of this statement.



CITY OF LAFAYETTE  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2007

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 2,897,848	\$ 479,058
Receivables:		
Taxes	65,968	-
Intergovernmental	14,773	-
Total receivables	80,741	-
Total assets	2,978,589	\$ 479,058
<u>Liabilities</u>		
Trust payable	-	\$ 479,058
Accounts payable	382,392	-
Total liabilities	382,392	\$ 479,058
<u>Net Assets</u>		
Held in trust for:		
Employees' pension benefits and other purposes	2,596,197	
Total net assets	\$ 2,596,197	

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2007

<u>Additions</u>	<u>Pension Trust Funds</u>
Contributions:	
Employer	\$ 1,222,864
State contributions	2,557,648
Plan members	14,658
Private donations	<u>2,253</u>
Total additions	<u>3,797,423</u>
 <u>Deductions</u>	
Benefits	4,512,426
Administrative expense	<u>8,240</u>
Total deductions	<u>4,520,666</u>
Changes in net assets	(723,243)
Net assets - beginning	<u>3,319,440</u>
Net assets - ending	<u>\$ 2,596,197</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Lafayette (primary government) was established under the laws of the State of Indiana. The primary government operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health, welfare and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, sewer, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

Primary Government: City of Lafayette  
Blended Component Unit: Lafayette Redevelopment Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Blended Component Units

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City's governing body or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

Component Unit	Description/Inclusion Criteria	Fund Included In
Lafayette Redevelopment Authority	The primary government appoints a voting majority of the Authority's board and a financial benefit/burden relationship exists between the City and the Authority. Although it is legally separate from the City, the Authority is reported as if it were a part of the City because it provides services entirely or almost entirely to the City.	Governmental funds - Redevelopment Authority

Joint Venture

The primary government is a participant with Tippecanoe County, the City of West Lafayette, and the Town of Battle Ground in a joint venture to operate the Lafayette Housing Consortium which was created to undertake eligible housing assistance activities under the HOME Investment Partnership Program (HOME), as set forth in the National Affordable Housing Act (NAHA). The City agrees to cooperate, to undertake, or to assist in undertaking housing assistance activities for HOME. Complete financial statements for the Consortium can be obtained from the City of Lafayette, 20 North Sixth Street, Lafayette, Indiana, 47901.

Related Organizations

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

not extend beyond making the appointments. The primary government appoints the board members of the Lafayette Housing Authority, Tippecanoe County Convention and Visitors Bureau, Tippecanoe County Child Care Commission, Lafayette Police Civil Service Commission, Area Plan Commission, Board of Zoning Appeals of Tippecanoe County/Lafayette Division, Lafayette Urban Enterprise Association, Lafayette Historic District Review Board, Greater Lafayette Public Transportation Corporation, Tippecanoe County Local Environmental Response Financing Board and the Lafayette Tree Advisory Committee.

**B. Government-Wide and Fund Financial Statements**

Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the primary government receives cash.

The primary government reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The streets fund accounts for the resources of the motor vehicle highway and local road and street funds which are utilized for the repair and maintenance of the City's fleet, streets and related infrastructure.

The parks fund accounts for the resources related to the operations, maintenance, repairs and upgrading of the City's recreational areas. This would include the City parks, zoo and golf course.

The redevelopment authority fund accounts for resources utilized to create positive economic development within the City. This is accomplished through improvements in housing, infrastructure and grants to subrecipients.

The primary government reports the following major proprietary funds:

The water utility fund accounts for the operation of the primary government's water distribution system.

The wastewater utility fund accounts for the operation of the primary government's wastewater treatment plant, pumping stations and collection systems.

Additionally, the primary government reports the following fund types:

The internal service fund accounts for self-insurance provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds which accumulate resources for pension benefit payments.

Agency funds account for assets held by the primary government as an agent for benefit providers and state and federal agencies for payroll withholdings.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The primary government has elected not to follow subsequent private-sector guidance.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the city and utilities for services. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The primary government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the primary government to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Interfund Transactions and Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables (i.e., the current and noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Normally, taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. For 2007, these dates were changed to June 15 and November 13, due to reassessment. All property taxes collected by the County Treasurer and available for distribution were not distributed to the primary government prior to December 31, of the year collected. The property taxes that were not distributed by December 31 are reported as receivable and are recognized as revenue on all financial statements. The taxes were received January 4, 2008. Delinquent property taxes outstanding at year end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable on the statement of net assets and are recognized as taxes revenues on the Statement of Activities. The net amounts are recognized as receivables on the funds financial statements with an offset to deferred revenue, since these amounts are not considered available.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method except for the golf course which averages costs. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 5,000	Straight-line	40 to 60 yrs
Land	1	N/A	N/A
Equipment, furniture, and vehicles	5,000	Straight-line	3 to 25 yrs
Roads – collectors and residential	5,000	Straight-line	50 yrs
Water, Wastewater, and Storm water mains, manholes, inlets and culverts	5,000	Straight-line	60 yrs
Wastewater and Storm water lift and pump stations	5,000	Straight-line	45 yrs

N/A – Not applicable

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the primary government in its business-type activities during the current year was \$5,266,537. Of the amount, \$245,124 was included as part of the cost of capital assets under construction in connection with the Pearl River Lift Station and Combined Sewer outlet tunnel.

7. Compensated Absences

- a. Sick Leave – primary government employees earn sick leave at the rate of 1 day per month and accumulate to a maximum of 36 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – primary government employees earn vacation leave at rates from 10 to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 5 days carryover to the following year. Accumulated vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave – primary government employees earn personal leave at the rate of 2 days per year and 1 day each year for their birthday. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, and personal leave.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and



CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis which is not consistent with accounting principles generally accepted in the United States. All annual appropriations lapse at fiscal year end.

On or before August 31, the City Controller submits to the Common Council a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the Common Council to obtain taxpayer comments. In September of each year, the Common Council through the passage of an ordinance approves the budget for the next year. Copies of the budget ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the City Controller receives approval of the Indiana Department of Local Government Finance.

The primary government's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2007, expenditures exceeded budgeted appropriations in the following funds, by the amounts below:

Fund	Amount
Motor Vehicle Highway	\$ 799,851

These expenditures were funded by existing cash reserves.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Deficit Fund Equity

At December 31, 2007, the following funds reported deficits in fund equity, which are violations of state statute:

	Deficit
Governmental funds:	
General	\$ 759,348
Economic revitalization	23,392

Fund equity deficits arose primarily from expenditures or expenses exceeding revenues due to the underestimate of current requirements and these deficits will be repaid from future revenues.

III. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2007, the City had no investments.

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

enterprise. The form of securities of, or interest, in an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments that are uninsured and (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. At December 31, 2007, the City held no investments of this type.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

C. Receivables

The Lahr loan receivable has timing and credit characteristics different from typical accounts receivable. This receivable is the result of debt proceeds from the U.S. Department of Housing and Urban Development being subsequently loaned to a developer for the renovation of property. The balance of the receivable as of December 31, 2007, is \$2,937,500 and monthly remittances are scheduled until 2018.

D. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Adjustment to Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 17,274,781	\$ 1,573,424	\$ 443,882	\$ 71,000	\$ 19,221,087
Construction in progress	22,123,476	-	7,165,909	18,384,958	10,904,427
Total capital assets, not being depreciated	39,398,257	1,573,424	7,609,791	18,455,958	30,125,514
Capital assets, being depreciated:					
Buildings	27,716,537	931,056	2,200,996	-	30,848,589
Improvements other than buildings	6,928,776	-	587,015	-	7,515,791
Machinery and equipment	5,042,947	-	332,714	24,817	5,350,844
Vehicles	11,677,168	3,225	1,133,779	42,221	12,771,951
Infrastructure	156,893,782	-	7,986,009	25,761	164,854,030
Totals	208,259,210	934,281	12,240,513	92,799	221,341,205
Less accumulated depreciation for:					
Buildings	5,403,493	263,799	631,261	-	6,298,553
Improvements other than buildings	1,071,733	-	362,093	-	1,433,826
Machinery and equipment	3,598,098	-	381,724	21,814	3,958,008
Vehicles	8,549,620	-	1,143,405	33,289	9,659,736
Infrastructure	41,911,889	-	2,267,067	25,760	44,153,196
Totals	60,534,833	263,799	4,785,550	80,863	65,503,319
Total capital assets, being depreciated, net	147,724,377	670,482	7,454,963	11,936	155,837,886
Total governmental activities capital assets, net	\$ 187,122,634	\$ 2,243,906	\$ 15,064,754	\$ 18,467,894	\$ 185,963,400
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 710,911	\$ -	\$ 1,174,873	\$ -	\$ 1,885,784
Construction in progress	41,863,781	-	23,234,588	24,165,015	40,933,354
Total capital assets, not being depreciated	42,574,692	-	24,409,461	24,165,015	42,819,138
Capital assets, being depreciated:					
Buildings	16,995,008	-	137,216	-	17,132,224
Improvements other than buildings	89,226	-	10,898	-	100,124
Machinery and equipment	70,636,070	-	1,563,380	214,253	71,985,197
Vehicles	2,180,526	-	402,433	282,427	2,300,532
Infrastructure	62,046,066	-	21,294,063	-	83,340,129
Totals	151,946,896	-	23,407,990	496,680	174,858,206
Less accumulated depreciation for:					
Buildings	1,648,493	-	367,366	-	2,015,859
Improvements other than buildings	37,005	-	4,097	-	41,102
Machinery and equipment	9,082,421	-	3,520,462	77,252	12,525,631
Vehicles	1,478,377	-	239,133	263,010	1,454,500
Infrastructure	9,944,993	-	1,377,619	-	11,322,612
Totals	22,191,289	-	5,508,677	340,262	27,359,704
Total capital assets, being depreciated, net	129,755,607	-	17,899,313	156,418	147,498,502
Total business-type activities capital assets, net	\$ 172,330,299	\$ -	\$ 42,308,774	\$ 24,321,433	\$ 190,317,640

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 301,430
Public safety	976,268
Public works, including depreciation of general infrastructure assets	2,405,637
Health and sanitation	346,942
Culture and recreation	<u>734,097</u>

Total depreciation expense - governmental activities	<u>\$ 4,764,374</u>
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Business-type activities:

Water	\$ 994,412
Wastewater	4,447,401
Other	<u>66,865</u>

Total depreciation expense - business-type activities	<u>\$ 5,508,678</u>
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E. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Governmental activities:				
Creasy Lane/Fortune Dr	\$ 168,023	\$ 168,022	\$ 1	\$ -
Lafayette State/Earl Traffic Signal	339,715	104,227	235,488	-
Creasy Lane and SR 26 Intersection Impr.	2,933,011	2,933,010	1	-
Water and Sewer Ext. LUR	1,611,012	1,611,011	1	-
Greenbush Street Reconstruction	6,603,176	5,205,569	1,397,607	-
Streetscape Project	952,000	147,382	804,618	-
Fire Truck and Equipment	59,534	59,534	-	-
Fire Station #3 Phase II	550,000	59,512	490,488	-
Wetland Mitigation	160,804	160,803	1	-
Centennial Park	106,850	55,366	51,484	-
Zoo Renovations Phase II	634	634	-	-
Concord Road Improvements	57,000	24,690	32,310	-
21st Street Improvements	238,862	233,288	5,574	-
Maple Point Extension	10,000	824	9,176	-
21st Street /Elmwood Traffic Signals	75,000	41,859	33,141	-
Concord Road Reconstruction 350 to Brady	208,000	98,696	109,304	-
Totals governmental activities	<u>\$ 14,073,621</u>	<u>\$ 10,904,427</u>	<u>\$ 3,169,194</u>	<u>\$ -</u>

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Business-type activities:				
New wellfield investigation	\$ 284,491	\$ 224,491	\$ 60,000	\$ -
Water and Sewer extension LUR	550,000	459,834	90,166	-
Franklin Street watermain replacement	270,903	270,903	-	-
Poland Hill water main extension	60,000	150	59,850	-
TSC watermain extension	47,865	47,865	-	-
Utility service area 21	10,060,790	118,907	9,941,883	-
Onsite chlorine generation equipment	367,182	367,182	-	-
Glick wellfield generator	1,500,000	278,446	1,221,554	-
Scada improvements	189,775	189,775	-	-
South water tower	190,382	190,382	-	-
Pearl river	30,919,043	13,414,166	17,504,877	-
SIA	22,578,275	22,378,275	200,000	-
Prairie Oaks phase II	498,726	199,669	299,057	-
Elliott Ditch phase I	2,886,144	2,666,144	220,000	-
Sewage treatment plant boiler stacks	6,621	6,621	-	-
Rome Drive pumping station land	40,000	212	39,788	-
Omni Site upgrade and replacement	13,404	13,404	-	-
Valley Street	1,500,000	40,245	1,459,755	-
Creasy Lane relief sewer - Lauth sewer	60,000	57,398	2,602	-
South/Kossuth Street sewer backups	9,285	9,285	-	-
Totals business-type activities	<u>\$ 72,032,886</u>	<u>\$ 40,933,354</u>	<u>\$ 31,099,532</u>	<u>\$ -</u>

F. Interfund Balances and Activity

Interfund Transfers

Interfund transfers for the year ended December 31, 2007, were as follows:

Transfer From	Transfer To Nonmajor Governmental
General Fund	\$ 19,480
Streets Fund	20
Nonmajor Governmental	<u>425,700</u>
Total	<u>\$ 445,200</u>

The primary government typically uses transfers to fund ongoing operating subsidies.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Leases

Capital Leases

The primary government has entered into various capital leases for facilities management system upgrade, vehicles, and other equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2007, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2008	\$ 360,310	\$ 83,919
2009	187,910	72,659
2010	115,830	72,659
2011	<u>115,830</u>	<u>72,660</u>
Total minimum lease payments	779,880	301,897
Less amount representing interest	<u>79,921</u>	<u>42,132</u>
Present value of net minimum lease payments	<u>\$ 699,959</u>	<u>\$ 259,765</u>

Assets acquired through capital leases still in effect are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Improvements other than buildings	\$ 184,561	\$ 79,097
Machinery and equipment	962,545	249,938
Transportation equipment	<u>398,437</u>	<u>-</u>
Totals	<u>\$ 1,545,543</u>	<u>\$ 329,035</u>

H. Long-Term Liabilities

1. General Obligation Bonds

The primary government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

General obligation bonds are direct obligations and pledge the full faith and credit of the primary government. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Park district bonds of 1998 for aquatic center	4.6% to 4.7%	\$ 3,915,000
Park and recreation bonds of 2001	3.8758% to 5%	2,795,000
Park and recreation bonds of 2003	3% to 4.3%	2,160,000
County option income tax infrastructure bonds of 2003	3% to 3.6%	615,000
Total		<u>\$ 9,485,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2008	\$ 735,000	\$ 414,750
2009	760,000	384,610
2010	795,000	352,790
2011	825,000	318,768
2012	795,000	282,608
2013-2017	4,135,000	868,388
2018-2021	1,440,000	64,816
Totals	<u>\$ 9,485,000</u>	<u>\$ 2,686,730</u>

2. Revenue Bonds

The primary government issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
District parking facility revenue bonds of 1996	6%	\$ 1,909,000
Wastewater improvement revenue bonds of 2002	4% to 5.15%	3,350,000
Water refunding revenue bonds of 2003	2% to 3.8%	3,225,000
Sewer works refunding revenue bonds of 2006	3.5% to 4.5%	26,790,000
Sewer works revenue bonds of 2006	4% to 4.75%	26,455,000
Total		61,729,000
Less: Net of bond discounts and premiums		<u>1,235,396</u>
Revenue bonds, net		<u>\$ 60,493,604</u>



CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2008	\$ 1,822,000	\$ 2,002,422
2009	2,214,000	2,500,752
2010	2,316,000	2,401,210
2011	2,440,000	2,303,213
2012	2,080,000	2,208,634
2013-2017	10,082,000	9,799,085
2018-2022	11,165,000	7,524,327
2023-2026	29,610,000	3,104,307
Totals	<u>\$ 61,729,000</u>	<u>\$ 31,843,950</u>

3. Tax Increment Financing (TIF) Bonds

The Lafayette Redevelopment Authority (a blended component unit of the primary government, and acting on behalf of the City of Lafayette) issues tax incremental financing (TIF) bonds. The TIF bonds are secured by tax proceeds attributable to the assessed valuation within the Lafayette Redevelopment District (the Lafayette Redevelopment District boundaries are coterminous with the City) to finance local public improvement and economic development projects.

Tax incremental financing (TIF) bonds are direct obligations and pledge the full faith and credit of the primary government. TIF bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1995 Redevelopment Authority lease rental bonds	5.375% to 5.5%	\$ 1,445,000
1996 Redevelopment Authority refunding bonds	5.4% to 5.6%	4,025,000
1997 Redevelopment Authority refunding bonds	3.75% to 5.35%	2,800,000
1998 Redevelopment Authority refunding bonds	4.1% to 4.8%	4,020,000
1999 Redevelopment Authority refunding bonds	4.1% to 4.8%	7,100,000
2001 Redevelopment Authority lease rental bonds - N. 9th St.	4.25% to 4.5%	2,875,000
2001 Redevelopment Authority lease rental bonds - Fire Station	4.375% to 4.5%	4,100,000
2002 Redevelopment Authority lease rental bonds - Twyckenham	3.0% to 5.0%	7,355,000
2003 Redevelopment Authority refunding bonds	3.0% to 3.9%	4,125,000
2003 Redevelopment Authority refunding bonds	1.2% to 3.75%	1,635,000
2004 Redevelopment Authority lease rental bonds - Brady Lane	3.25% to 4.1%	5,070,000
2004 Redevelopment Authority refunding bonds	3.0% to 4.1%	9,225,000
2005 Redevelopment Authority bond anticipation notes	4.00%	2,500,000
2004 Renaissance Place Series A bonds	5.50%	2,145,000
2004 Renaissance Place Series B bonds	5.50%	850,000
2006 Redevelopment Authority revenue bonds - Thoroughfare	6.00%	2,995,000
Total		62,265,000
Less: Net of bond discounts and premiums		<u>47,322</u>
TIF bonds, net		<u>\$ 62,217,678</u>

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

TIF bonds debt service requirements to maturity are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2008	\$ 5,905,000	\$ 2,963,247
2009	3,685,000	2,469,772
2010	3,970,000	2,399,453
2011	4,195,000	2,234,102
2012	4,400,000	2,055,360
2013-2017	24,975,000	7,061,572
2018-2022	11,810,000	2,254,503
2023-2027	3,325,000	313,364
Totals	<u>\$ 62,265,000</u>	<u>\$ 21,751,373</u>

4. Loans Payable

The Wastewater Utility has entered into two loans from the State Revolving Loan Fund. The funds are loaned to the Utility as planned construction costs are accrued up to the maximums allowed under the loans. The established maximums for the 2000 and 2001 loans are \$59,630,000 and \$12,000,000 respectively. At December 31, 2007, the principal balances for the 2000 and 2001 loans were \$48,360,000 and \$9,702,080 respectively.

The City received a "Section 108" loan from HUD in the amount of \$3,300,000. The proceeds were deposited with a Trustee for subsequent loan to a private developer for the Lahr Project. The developer is currently making timely payments and the current principal balance of the loan at December 31, 2007, is \$2,965,000.

Annual debt service requirements to maturity for the loans are as follows:

	Business-type Activities	
	Principal	Interest
2008	\$ 1,545,000	\$ 1,211,507
2009	3,120,000	2,146,126
2010	3,225,000	1,940,456
2011	3,335,000	1,919,202
2012	3,460,000	1,799,698
2013-2017	20,640,000	6,998,854
2018-2022	23,265,000	2,700,745
2023	2,437,080	43,050
Totals	<u>\$ 61,027,080</u>	<u>\$ 18,759,638</u>

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Notes Payable

The primary government has entered into various notes. Annual debt service requirements to maturity for the notes are as follows:

	Governmental Activities	Business-type Activities
2008	\$ 530,652	\$ 72,702
2009	491,664	-
2010	471,579	-
2011	139,457	-
2012	90,607	-
Totals	1,723,959	72,702
Less Interest	62,850	3,888
Totals	<u>\$ 1,661,109</u>	<u>\$ 68,814</u>

6. Advance Refunding

In prior years, the primary government defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the primary government's financial statements. The following outstanding bonds, at December 31, 2007, were considered defeased:

	<u>Amount</u>
Primary government:	
1991 Redevelopment Authority lease rental - \$5,000,000	\$ 1,700,000
1993 Redevelopment Authority refunding issue - \$4,855,000	1,590,000
1994 Redevelopment Authority lease rental - \$9,365,000	6,430,000
1994 Redevelopment Authority lease rental - \$15,000,000	10,870,000
1994 Redevelopment Authority lease rental - \$5,665,000	3,615,000
1995 Redevelopment Authority lease rental - \$8,200,000	5,790,000
1995 Redevelopment Authority lease rental - \$3,360,000	2,840,000
2002 Sewage Works revenue bonds - \$30,000,000	23,935,000

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Primary Government	Beginning Balance	Adjustments to Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>						
Bonds payable:						
General obligation	\$ 10,190,000	\$ -	\$ -	\$ 705,000	\$ 9,485,000	\$ 735,000
Redevelopment agency	65,250,087	-	239,913	3,225,000	62,265,000	5,905,000
Less deferred amount on refunding	146,675	-	-	14,667	132,008	-
Total bonds payable	75,293,412	-	239,913	3,915,333	71,617,992	6,640,000
Capital leases	546,096	-	454,217	300,354	699,959	323,595
Notes payable	1,117,147	1,030,064	-	486,102	1,661,109	489,257
Net pension obligation	25,159,558	-	-	1,142,118	24,017,440	-
Compensated absences	9,223	-	-	9,223	-	-
Total governmental activities long-term liabilities	\$ 102,125,436	\$ 1,030,064	\$ 694,130	\$ 5,853,130	\$ 97,996,500	\$ 7,452,852
<b>Business-type activities:</b>						
Revenue bonds payable:						
Water Utility	\$ 3,865,000	\$ -	\$ -	\$ 640,000	\$ 3,225,000	\$ 670,000
Wastewater Utility	58,091,000	-	-	1,496,000	56,595,000	1,025,000
Economic development	90,000	-	-	90,000	-	-
District parking facility	2,025,000	-	-	116,000	1,909,000	127,000
Less deferred amount on refunding	1,649,412	-	-	118,758	1,530,654	-
Total revenue bonds payable	62,421,588	-	-	2,223,242	60,198,346	1,822,000
Loans payable	62,137,080	3,015,000	-	4,125,000	61,027,080	3,035,000
Notes payable	135,342	-	-	66,528	68,814	68,814
Capital leases	36,692	-	249,938	26,865	259,765	66,315
Total business-type activities long-term liabilities	\$ 124,730,702	\$ 3,015,000	\$ 249,938	\$ 6,441,635	\$ 121,554,005	\$ 4,992,129

I. Contingent Receivable – Forgivable Loans

The City has contingent receivables resulting from rehabilitation and improvement loans made through various Community Development Block Grant and Home Investment Partnership Programs. The loans become receivable only if recipients do not meet occupancy or other requirements. Loans balances are systematically "forgiven" (reduced without cash payment) each year the recipient meets the requirements. The receivable is contingent upon the recipient not meeting the requirements and the amount of the receivable is not known until that time. The following schedule shows the changes in this contingent receivable for 2007:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Beginning Balance, January 1	\$ 5,425,843
New loans	1,208,947
Amounts forgiven	(173,993)
Principal amount paid on loans	<u>(137,735)</u>
Ending Balance, December 31	<u>\$ 6,323,062</u>

J. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Customer deposits	\$ 108,363
Revenue bond operations and maintenance account	<u>20,967,449</u>
Total restricted assets	<u>\$ 21,075,812</u>

K. Restatements and Reclassifications

For the year ended December 31, 2007, certain changes have been made to the financial statements to more appropriately reflect financial activity of the primary government. The following schedule presents a summary of restated beginning balances by fund type. New funds represent the inclusion of existing funds which were not presented in the prior report. Prior period adjustments represent corrections in the presentation of capital assets and liabilities:

Opinion Unit	Balance as Reported December 31, 2006	New Funds	Prior Period Adjustments	Balance as Restated January 1, 2007
Governmental activities	\$ 111,302,968	\$ (830,064)	\$ 2,256,907	\$ 112,729,811
Business-type activities	92,704,356	28,498	1,175,000	93,907,854
Other governmental funds	15,673,256	-	(85,680)	15,587,576
Wastewater Utility	62,067,738	-	1,175,000	63,242,738
Other enterprise funds	1,242,877	28,498	-	1,271,375

IV. Other Information

A. Risk Management

The primary government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; dental and vision medical benefits to employees; unemployment compensation benefits; and natural disasters.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Dental and Vision Medical Benefits

The primary government has chosen to establish a risk financing fund for risks associated with medical benefits to employees for dental and vision coverage. The risk financing fund is accounted for in the Dental/Vision Insurance Fund, an internal service fund, where assets are set aside for claim settlements. A premium is charged to each fund that accounts for dental and vision coverage. The total charge allocated to each of the funds is calculated using trends in actual claims experience. The plan is administered by Stewart Miller. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims	569,334	555,186
Claim payments	<u>569,334</u>	<u>555,186</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

Job Related Illnesses or Injuries to Employees

The primary government has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$250,000 per individual and \$1,000,000 per aggregate annually. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims	178,893	165,760
Claim payments	<u>178,893</u>	<u>165,760</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

Unemployment Compensation Benefits

The primary government has chosen to establish a risk financing fund for risks associated with unemployment compensation insurance. The risk financing fund is accounted for in each fund from where the employee's salary was paid.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay outs and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims	30,334	58,378
Claim payments	<u>30,334</u>	<u>58,378</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

B. Related Party Transactions

During the period in which financial statements are presented, the primary government had material transactions with Gary Henriott, Board of Works Member, in relation to insurance coverage in the amount of \$272,965. No amount was due as of the balance sheet date.

C. Improper Local Tax Distribution

The Tippecanoe County Auditor discovered errors made in the distribution of tax increment financing district taxes collected in 2007 resulting in an estimated net overpayment to the City of approximately \$1,225,000. The City and County have not settled on the exact amount of the error or the method of reimbursement.

D. Subsequent Events

Lafayette Neighborhood Housing Service declared bankruptcy in 2007 and the City accepted approximately \$324,000 in loans receivable as a result in 2008.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The City authorized the sale of two bond issues on March 3, 2008. One issue was the Sewage Works Revenue Bonds of 2008, authorized in the aggregate amount of \$5,000,000. The other bond issue was the Redevelopment Tax Increment Revenue Bonds of 2008 in the aggregate amount of \$5,000,000.

The City authorized and entered into various construction contracts during the period January 1 to June 3, 2008, in the total aggregate amount of \$7,174,560.

E. Section 108 Loan

The City received a "Section 108" loan from HUD in the amount of \$3,300,000. The proceeds were deposited with a Trustee for subsequent loan to a private developer for the Lahr Project. The developer is responsible for the Loan Repayment. The City has a liability connected with the loan in the event of default by the developer. The City pledged as security for the loan future Community Development Block Grant and Program Income Funds in the event the developer would default. The liability is contingent upon the default of the developer and the amount would be the outstanding principal and interest at the time of the default. The developer is currently making timely payments and the current principal balance of the loan at December 31, 2007, is \$2,965,000.

F. Conduit Debt Obligation

The primary government has issued the Indiana Variable Rate Demand Economic Development Revenue Bonds of 2003 to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the primary government, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2007, the sole series of bonds outstanding had an aggregate principal amount payable of \$2,040,000.

G. City/County Interlocal Agreement

An interlocal agreement between the Tippecanoe County Redevelopment Commission and the City of Lafayette Redevelopment Commission was entered into in 2001. The agreement provides for the allocation of TIF distributions related to the Southeast Industrial Expansion economic development area and the McCarty Lane economic development area.

Under the terms of the agreement, Tippecanoe County established a Southeast Industrial Expansion economic development TIF district to finance public improvements within the defined district. The City had established the McCarty TIF district. In accordance with the interlocal agreement, the public improvements mutually benefit the districts.

The County has pledged one-half of the actual TIF proceeds from the Southeast Industrial Expansion district for the agreed upon public improvements which will be constructed and owned by the City. The City has pledged one-half of the actual TIF proceeds from the McCarty Lane TIF district for the agreed upon public improvements which will be constructed and owned by the County.



CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Under the terms of the agreement, the County has established a Southeast Industrial TIF fund to account for the funds used to pay for the public improvements which will be constructed and administered by the City. The payments for these projects are initiated by the City then reviewed, approved and paid by the County. At December 31, 2007, the Southeast Industrial TIF fund had \$266,768 held for these capital projects.

The City has established a TIF County's South East fund to account for the McCarty TIF district funds used to pay for the public improvements which will be constructed and administered by the County. The payments for these projects are initiated by the County then reviewed, approved and paid by the City. At December 31, 2007, the TIF County's South East fund had \$734,453 held for these capital projects.

H. Postemployment Benefits

In addition to the pension benefits described below, effective January 1, 2004, the primary government provides a portion of postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the primary government. The total of said benefits shall be \$4,800, credited at a rate of \$100 per month for the retiree to continue coverage under the City health insurance plan. This benefit will terminate at the \$4,800 individual limit, or immediately upon the employee or spouse/dependent becoming covered by another group plan with no preexisting health clause, or if the employee or spouse/dependent becomes eligible for Medicare. Currently, 30 employees meet these eligibility requirements. The primary government provides 100% of these post-employment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2007, expenditures of \$4,600 for police, \$2,800 for fire, and \$1,100 for water pollution control (wastewater) were recognized for postemployment benefits.

I. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The primary government contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the primary government authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

b. 1925 Police Officers' Pension Plan

Plan Description

The primary government contributes to the 1925 Police Officers' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The primary government's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the primary government results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The primary government contributes to the 1937 Firefighters' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 725,972	\$ 1,554,200	\$ 2,951,300
Interest on net pension obligation	(36,375)	517,700	900,600
Adjustment to annual required contribution	41,453	(643,400)	(1,119,300)
Annual pension cost	731,050	1,428,500	2,732,600
Contributions made	655,965	1,855,056	1,925,456
Increase (decrease) in net pension obligation	75,085	(426,556)	807,144
Net pension obligation, beginning of year	(501,730)	8,627,657	15,009,195
Net pension obligation, end of year	\$ (426,645)	\$ 8,201,101	\$ 15,816,339

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5.50%	1,629%	515%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-07	01-01-07	01-01-07
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years	40 years
Amortization period (from date)	07-1-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-05	\$ 574,986	105%	\$ (502,370)
	06-30-06	622,914	100%	(501,730)
	06-30-07	731,050	90%	(426,645)
1925 Police Officers' Pension Plan	12-31-05	1,526,400	60%	9,646,385
	12-31-06	1,545,800	166%	8,627,657
	12-31-07	1,428,500	130%	8,201,101
1937 Firefighters' Pension Plan	12-31-05	2,415,700	100%	16,065,993
	12-31-06	2,485,000	100%	15,009,195
	12-31-07	2,732,600	100%	15,816,339

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2007, was comprised of the following:

	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Retires and beneficiaries currently receiving benefits	61	88
Terminated employees entitled to but not yet receiving benefits	0	0
Current active employees	0	3

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

CITY OF LAFAYETTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2007, 2006, and 2005, were \$2,453,268, \$2,367,347, and \$2,237,763, respectively, equal to the required contributions for each year.

CITY OF LAFAYETTE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 10,283,049	\$ 11,316,934	\$ (1,033,885)	91%	\$ 11,449,596	(9%)
07-01-06	11,015,226	11,680,864	(665,638)	94%	12,224,390	(5%)
07-01-07	12,322,372	13,030,374	(708,002)	95%	12,485,467	(6%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-02	\$ 1,347,018	\$ 24,113,300	\$ (22,766,282)	6%	\$ 299,400	(7,604%)
01-01-03	1,534,461	23,676,100	(22,141,639)	6%	392,600	(5,640%)
01-01-04	953,193	22,607,400	(21,654,207)	4%	218,200	(9,924%)
01-01-05	135,770	22,318,500	(22,182,730)	1%	224,200	(9,894%)
01-01-06	(157,220)	22,696,700	(22,853,920)	(1%)	189,100	(12,086%)
01-01-07	861,582	21,078,300	(20,216,718)	4%	95,400	(21,192%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-02	\$ 1,593,225	\$ 36,517,400	\$ (34,924,175)	4%	\$ 626,500	(5,574%)
01-01-03	2,258,287	33,855,200	(31,596,913)	7%	1,065,200	(2,966%)
01-01-04	1,506,063	35,630,100	(34,124,037)	4%	610,800	(5,587%)
01-01-05	1,355,120	34,737,800	(33,382,680)	4%	582,700	(5,729%)
01-01-06	1,058,018	35,555,500	(34,497,482)	3%	614,300	(5,616%)
01-01-07	1,562,361	38,678,700	(37,116,339)	4%	572,700	(6,481%)

CITY OF LAFAYETTE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CONTRIBUTIONS FROM THE  
EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-02	\$ 2,594,800	29%	34%
12-31-03	2,597,100	0%	33%
12-31-04	2,636,900	4%	18%
12-31-05	1,640,900	7%	49%
12-31-06	1,676,800	104%	49%
12-31-07	1,554,200	49%	70%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-02	\$ 3,964,200	38%	31%
12-31-03	4,051,800	0%	29%
12-31-04	4,220,700	5%	37%
12-31-05	2,605,400	9%	42%
12-31-06	2,703,200	91%	40%
12-31-07	2,951,300	16%	50%

CITY OF LAFAYETTE  
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Controls over the recording of financial information are insufficient to insure fairly presented financial statements. Non-routine entries and unusual and unexpected events are not reviewed to insure all aspects of the transactions are properly reflected in the financial statements. Large errors identified during the audit included the following:

- (1) An early-retirement incentive liability to a fireman was posted twice. This resulted in both the accounts payable and expense being overstated by \$99,520.
- (2) A bond payment from the Wastewater Utility in the amount of \$885,230 was not recorded in the financial records when the bank removed the funds from the bank account earlier than expected. This resulted in the bond liability being overstated by \$290,000, the accrued interest liability overstated by \$595,230, and cash being overstated by \$885,230 as of December 31, 2007.
- (3) No entries were made to the Taxes Receivable and Intergovernmental Receivable accounts during 2007 to reflect the transactions during the year or balance as of December 31, 2007. The understatement in Taxes Receivable, Intergovernmental Receivable, and revenue was \$950,834, \$346,051, and \$1,296,885, respectively.
- (4) Receivables for the improvement of sidewalks due from property owners in the amount of \$74,722 were omitted from the financial statements.
- (5) Transactions and account balances associated with a debt owed to the U.S. Department of Housing and Urban Development that is being paid using collections from an outside entity were omitted from the financial statements. Cash, loan receivable, interest payable, loan payable and fund balance were understated \$140,780, \$2,937,500, \$81,258, \$2,965,000, and \$32,022, respectively.
- (6) Interest incurred during the construction phase of the Pearl River Lift Station and Combined Sewer Outlet Tunnel project in excess of any interest earnings was not capitalized as a cost of the infrastructure. This resulted in the overstatement of interest expense and understatement of construction work in progress of \$245,124.
- (7) Accrued wages payable were incorrectly calculated as of December 31, 2007, resulting in understatement of expense and the liability by \$115,885.
- (8) The additional cash given the City in 2007 to be held on behalf of the County due to contractual arrangement was not posted as a liability of the City but simply as revenue. This resulted in an understatement of liability and overstatement of fund balance of \$338,300.
- (9) Reimbursement owed to two outside entities for past debt payments made on the City's behalf totaling \$830,064 was omitted from the financial statements.

Subsequent adjusting entries made by the City corrected the financial statements to the extent that, as reported in the Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards, they are fairly presented.



CITY OF LAFAYETTE  
AUDIT RESULTS AND COMMENTS  
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRIOR PERIOD ADJUSTMENTS

The following adjustments were made to the 2007 financial records as corrections for omissions and errors made in prior periods:

- (1) Interest of \$338,855 expensed in 2005 and 2006 was capitalized as a cost of the applicable project.
- (2) Assets costing \$2,256,349 purchased in prior periods were capitalized with the accompanying accumulated depreciation of \$263,799.
- (3) Loan principal was reduced \$1,175,000 for payments made in prior periods.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

The cash balance of the General Fund and Economic Revitalization Fund were overdrawn at December 31, 2007, by \$933,667.97 and \$23,391.70, respectively.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAFAYETTE  
AUDIT RESULTS AND COMMENTS  
(Continued)

ORDINANCES AND RESOLUTIONS - DROP PROGRAM

Payments of the Deferred Retirement Option Plan (DROP) benefits made to two firefighters in 2007 were improperly computed by the City. The salary used to compute both the retirement benefit and monthly retirement was not the salary approved by the City Council when the firefighters entered the DROP program. This error in computation has caused the firefighters to be overpaid a total of \$5,757.83 for both their retirement benefit payments and their monthly pension benefit.

Indiana Code 36-8-8.5-12 provides the required methodology for the computation of the DROP benefits.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for audit indicated the Motor Vehicle Highway fund had \$799,851 in expenditures in excess of budgeted appropriations.

This excess was due to the Motor Vehicle Highway Fund purchasing all supplies, including gas, oil, and parts for most City vehicles and then recouping these costs from the other City departments as they are used.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

PAYROLL RECORDS AND PRACTICES

Computerized payroll records indicate that two-week pay periods are the same for all employees and payroll checks are issued one week after the end of the pay period. City personnel stated that the pay period for salaried employees ends the day checks are issued and that the recorded pay periods per the computerized payroll records are not correct for these employees. Policies and procedures should be implemented to provide the internal controls that would promote consistency of payroll procedures and actual practices and prevent potential over/under payments of salary.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Lafayette (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2007. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 13, 2008

CITY OF LAFAYETTE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2007

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Direct Grant			
Community Development Block Grant - Entitlement and Housing and Urban Development Administered Small Cities Cluster			
Community Development Block Grants/Entitlement Grants	14.218	B05-MC-18008 B06-MC-18008 B07-MC-18008	\$ 526,946 202,210 76,109
Total for program			805,265
Home Investment Partnerships Program	14.239	M03-DC-180212 M04-DC-180212 M05-DC-180212 M06-DC-180212 M07-DC-180212	40,000 661,058 287,236 169,387 93,072
Total for program			1,250,753
Total for federal grantor agency			2,056,018
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Direct Grant			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-F4498-IN-DJ	1,453
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
State and Community Highway Safety	20.600	PT-08-04-01-40	13,440
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	PT-07-04-01-47 154AL-07-02-02-04 K8-07-03-01-20 K4-2008-02-02-07	45,082 117,565 35,728 15,367
Total for program			213,742
Total for federal grantor agency			227,182
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>			
Pass-Through Indiana Department of Homeland Security			
Public Assistance Disaster Grants	97.036	FIPS# 157-40788-00	89,658
Total federal awards expended			\$ 2,374,311

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF LAFAYETTE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lafayette (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the primary government provided federal awards to subrecipients as follows for the year ended December 31, 2007:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	\$ 93,033

CITY OF LAFAYETTE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? yes

Reportable conditions identified that are not considered to be material weaknesses? no

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified? no

Reportable conditions identified that are not considered to be material weaknesses? none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? no

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
----------------	------------------------------------

14.239	Home Investment Partnerships Program
--------	--------------------------------------

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

FINDING 2007-1 – NON-ROUTINE, UNUSUAL, AND UNEXPECTED EVENTS.

Routine audit testing procedures disclosed certain deficiencies in internal control that were considered to be material weaknesses. Nonroutine entries and unusual and unexpected events are not reviewed to insure all aspects of the transactions are properly reflected in the financial statements. After a review of audit findings, the City posted adjustments to the records to mitigate the following items:

- (1) An early-retirement incentive liability to a fireman was posted twice. This resulted in both the accounts payable and expense being overstated by \$99,520.
- (2) Receivables for the improvement of sidewalks due from property owners in the amount of \$74,722 were omitted from the financial statements.



CITY OF LAFAYETTE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (3) Transactions and account balances associated with a debt owed to the U.S. Department of Housing and Urban Development that is being paid using collections from an outside entity were omitted from the financial statements. Cash, loan receivable, interest payable, loan payable and fund balance were understated \$140,780, \$2,937,500, \$81,258, \$2,965,000, and \$32,022, respectively.
- (4) Interest incurred during the construction phase of the Pearl River Lift Station and Combined Sewer Outlet Tunnel project in excess of any interest earnings was not capitalized as a cost of the infrastructure. This resulted in the overstatement of interest expense and understatement of construction work in progress of \$245,124.
- (5) The additional cash given the City in 2007 to be held on behalf of the County due to contractual arrangement was not posted as a liability of the City but simply as revenue. This resulted in an understatement of liability and overstatement of fund balance of \$338,300.
- (6) Reimbursement owed to two outside entities for past debt payments made on the City's behalf totaling \$830,064 was omitted from the financial statements.

The City is responsible for maintaining an internal control system that provides for the ability to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles. Adequate internal control is necessary to allow management and employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2007-2, FISCAL YEAR END REPORTING PROCESS

Routine audit testing procedures disclosed certain deficiencies in internal control that were considered to be material weaknesses. An ineffective control environment exists over the period-end financial reporting process, including controls over procedures used to initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. After a review of audit findings, the City posted adjustments to the records to mitigate the following items with the exception of the understatement of the year end accrual for wages payable:

- (1) A bond payment from the Wastewater Utility in the amount of \$885,230 was not recorded in the financial records when the bank removed the funds from the bank account earlier than expected. This resulted in the bond liability being overstated by \$290,000, the accrued interest liability overstate by \$595,230, and cash being overstated by \$885,230 as of December 31, 2007.
- (2) No entries were made to the Taxes Receivable and Intergovernmental Receivable accounts during 2007 to reflect the transactions during the year or balance as of December 31, 2007. The understatement in Taxes Receivable, Intergovernmental Receivable, and revenue was \$950,834, \$346,051, and \$1,296,885, respectively.
- (3) Accrued wages payable were incorrectly calculated as of December 31, 2007, resulting in understatement of expense and the liability by \$115,885.

CITY OF LAFAYETTE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The City is responsible for maintaining an internal control system that provides for the ability to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles. Adequate internal control is necessary to allow management and employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2007-3, PRIOR PERIOD ADJUSTMENTS

The City revised job descriptions and instituted new procedures which resulted in the following adjustments being made in 2007 as corrections for omissions and errors made in prior periods due to an ineffective control environment:

- (1) Interest of \$338,855 expensed in 2005 and 2006 was capitalized as a cost of the applicable project.
- (2) Assets costing \$2,256,349 purchased in prior periods were capitalized with the accompanying accumulated depreciation of \$263,799.
- (3) Loan principal was reduced \$1,175,000 for payments made in prior periods.

The City is responsible for maintaining an internal control system that provides for the ability to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles. Adequate internal control is necessary to allow management and employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF LAFAYETTE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



OFFICE OF CONTROLLER

August 1, 2008

**Corrective Action Plan**

**FINDING NO. 2007-01**

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 12/1/2008

**Corrective Action Planned:**

The City of Lafayette will undertake a review of the internal control system and to the extent possible design procedures that would eliminate the deficiencies noted in items 1,2,4,5 and 7. The Controller and Deputy Controller will design and monitor those procedures once determined. The remaining items will require the Controller and Deputy Controller to effectively communicate with the State Board to define a consistent and effective methodology to present those items in the financial statement.

**FINDING NO. 2007-02**

Auditee Contact Person: Mike Jones  
Title of Contact Person: Controller  
Phone Number: 765-807-1011  
Expected Completion Date: 8/1/2008

**Corrective Action Planned:**

The City of Lafayette has implemented a new system of review which will result in correcting items 1 and 2. Additionally, the City will use the same reports and methodology as the State Board when calculating the item in number 3 so as to provide a consistent measure for this item.

## Corrective Action Plan

### FINDING NO. 2007-03

Auditee Contact Person: Mike Jones

Title of Contact Person: Controller

Phone Number: 765-807-1011

Expected Completion Date: 12/1/2008

The City will again review and revise their procedures to the extent possible to correct control deficiencies noted in items 1 and 2. A procedure for item 3 has already been implemented.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. Michael Jones".

J. Michael Jones  
Controller

CITY OF LAFAYETTE  
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2008, with Tony Roswarski, Mayor; J. Michael Jones, Controller; Cindy Murray, President of the Board of Public Works and Safety; Terry Schmitt, Deputy Controller; and Edward Chosnek, City Attorney.